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SUBJECT: SUPPLY CONSTRAINTS PINCH QATAR'S BOOMING
CONSTRUCTION INDUSTRY

¶1. (SBU) Doha's fast-growing construction industry continues to suffer from supply constraints as the availability of raw materials remains inadequate to meet surging demand. While construction only accounts for 6 percent of GDP, the sector registered a 22 percent growth rate last year, and the capital's rapidly growing skyline underscores the breakneck speed of construction. Residential and commercial property demand remains high due to strong economic growth and a fast-growing expatriate population. A Business Monitor International study recently estimated that the value of the construction sector in Qatar would reach USD 33 billion by
¶2012.

¶2. (SBU) The GOQ has attempted to accommodate this growth by easing import requirements and limiting prices. Most notably, in June the GOQ imposed a three-year freeze on the price of cement, steel, and sand. The price of cement is fixed at 250 Qatari Riyals (less than USD 69) per ton, but cement is selling for at least four times that on a flourishing black market, according to recent press reports. The government-owned Qatar National Cement Company (QNCC) sells to many small and medium-sized companies, but its local production capacity has been overwhelmed by demand in recent years. According to press reports, QNCC officials do not expect relief anytime soon "as the unprecedented demand for (cement) requires huge investments before bridging the gap between supply and demand." Many suppliers had depended on Saudi Arabia for cement supplies, but the Kingdom recently restricted exports due to its own internal construction demands, further exacerbating supply woes in Qatar.

¶3. (SBU) Embassy contacts in the construction industry blame the lack of import capacity in Qatar as the chief reason for shortages. Andre Fayad, Procurement Manager for Construction Development Company (CDC - a contractor with over 7,000 employees), told Econoff July 30 that his company is "losing a lot of money" on contracts due to the supply shortages. CDC has had to push back timelines by months and "pay wages for workers who are doing nothing" due to the lack of materials. He added that his clients are not accepting the black market prices for cement in contracts, further cutting into the company's ability to make a profit or complete projects on time. Mohammad Khan, General Manager for medium-sized contractor Redco Construction, echoed these concerns, telling Econoff that his company cannot get external shipments cleared in a timely manner through customs.

¶4. (SBU) Comment: Strong economic growth and a fast-growing expatriate population will keep the pressure on property developers to meet demand. Indeed, developers continue to launch mega-projects in Qatar, from new luxury hotels to residential developments, commercial towers, and mixed-use properties. However, there are too many builders chasing too few shipments of raw materials, and price controls will not alleviate the problem. For example, the Pearl, Doha's premier mixed-use development currently under construction, has seen its original cost estimates of USD 2.5 billion revised upward to USD 9 billion.

¶5. (SBU) Projects will continue to face delays and cost overruns until Qatar can significantly expand its import infrastructure to accommodate the new level of demand. Qatar's supply bottleneck is a microcosm of the global problem of finding enough raw materials, but the lack of local suppliers for many key goods leaves Qatar particularly exposed. The GOQ is making massive investments in infrastructure, including plans for a USD 22 billion deep-water port south of Doha which would increase by twenty times Qatar's seaport capacity. The first phase is projected to cost USD 4.5 billion and is still only in the tendering process; real relief will be years away.

LeBaron